



WILLIAM S. HARWOOD
PARTNER
wharwood@verrilldana.com
Direct: 207-253-4702

ONE PORTLAND SQUARE
PORTLAND, MAINE 04112-0586
207-774-4000 • FAX 207-774-7499
www.verrilldana.com

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April 8, 2004

Dennis Keschl
Maine Public Utilities Commission
State House Station #18
242 State Street
Augusta ME 04333-0018

Re: PUBLIC UTILITIES COMMISSION
Re: Investigation of Bangor Hydro-Electric
Company's Stranded Costs Revenue Requirement
Docket No. 2001-239

BANGOR HYDRO-ELECTRIC COMPANY
Re: Petition for Accounting Order
(PERC Settlement Agreement)
Docket No. 2004-5

PUBLIC UTILITIES COMMISSION
Re: Investigation Into Bangor Hydro-Electric Company's
Stranded Cost Revenue Requirements and Rates
Docket No. 2004-112

**THIS IS A VIRTUAL DUPLICATE OF THE ORIGINAL HARDCOPY SUBMITTED TO THE
COMMISSION IN ACCORDANCE WITH ITS ELECTRONIC FILING INSTRUCTIONS**

Dear Dennis:

Enclosed please find the original and one copy of a Stipulation in the above referenced matter. I have executed the Stipulation on behalf of BHE. Other parties will be submitting separately executed signature pages.

Thank you for your attention to this matter. If you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read 'William S. Harwood', written in a cursive style.

William S. Harwood

WSH/ddm
Enclosure
cc: Service List

**STATE OF MAINE
PUBLIC UTILITIES COMMISSION**

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STIPULATION

PUBLIC UTILITIES COMMISSION
Re: Investigation Into Bangor Hydro-Electric Company's
Stranded Cost Revenue Requirements and Rates
Docket No. 2004-112

Bangor Hydro-Electric Company ("BHE"), the Office of the Public Advocate (OPA), the Industrial Energy Consumer Group ("IECG") and Central Maine Power Company (CMP) (collectively "The Parties"), hereby agree and stipulate as follows:

I. PURPOSE

The purpose of this Stipulation is to settle all issues in the consolidated proceeding under Docket No. 2004-5 and Docket No. 2001-239 (the PERC Case), to avoid a hearing on those issues and to expedite the Public Utilities Commission's consideration and resolution of the PERC Case. In addition, the purpose of this Stipulation is to defer further processing of the current BHE stranded costs rate case under Docket No. 2004-112 (the 2004 SC Rate Case). The provisions agreed to herein have been reached as a result of information gathered through discovery and discussions among the parties in this case.

II. PROCEDURAL BACKGROUND

1. BHE filed its Petition in the PERC Case on January 8, 2004 requesting this Commission to: (1) find that the Settlement Agreement between BHE and Penobscot Energy Recovery Company ("PERC") dated December 30, 2003 constitutes a reasonable effort by BHE to mitigate its stranded costs; and (2) enter an Accounting Order that the net proceeds received by BHE under the Settlement Agreement be deferred for recognition in BHE's next stranded costs rate proceeding.

2. In his February 18, 2004 Procedural Order in the PERC Case, the Hearing Examiner made all parties in Docket No. 2001-239 parties to the PERC Case. These parties include the Office of the Public Advocate and the IECG.

3. On February 18, 2004 the Commission Staff issued Data Request No. 1 in the PERC Case, to which BHE responded on February 25. A Case Conference/Technical Conference in the PERC Case was held on March 2, and a Technical Conference in the PERC case was held on March 9, 2004.

4. On February 10, 2004, BHE requested that the PUC initiate a formal investigation into BHE's stranded costs rates. The PUC responded with a Notice of Proceeding dated February 12, 2004, thereby formally initiating the 2004 SC Rate Case.

5. By Procedural Order dated March 15, 2004 in the 2004 SC Rate Case, the Hearing Examiner granted OPA's and IECG's Petitions to Intervene and granted a Petition for limited intervention by CMP for the limited purpose of receiving filings and filing briefs on legal or policy issues.

6. Written and Oral Data Requests in the 2004 SC Rate Case were issued by the Examiner and OPA and responded to by BHE. Technical / Case Conferences were held on February 29, March 9, and March 18.

III. RECOMMENDED APPROVALS AND FINDINGS

Based upon the record in these two cases, the parties to this Stipulation agree and recommend that the Commission conclude the PERC Case and defer further processing of the 2004 SC Rate Case by issuing an Order which approves, accepts and adopts this Stipulation, including the following provisions:

1. The Settlement Agreement between BHE and PERC constitutes a reasonable effort by BHE to mitigate its stranded costs with respect to the matter at issue in the PERC Case;

2. BHE shall defer on its books of account as a regulatory liability the monthly payments to be made to BHE by PERC under the terms of the Settlement Agreement, decreased by the effect of this payment on the Bangor Hydro Distribution (as described in Amendment No. 2 of the PPA), so that the monthly amount to be deferred shall be \$13,195 ($19,792 \times 2/3$).

Assuming BHE Stranded Costs Rates are adjusted on March 1, 2005 as described in paragraph 6 below, any monthly payments after March 1, 2005 shall not be deferred as described in this paragraph.

3. BHE shall defer on its books of account as a regulatory liability the reductions in the purchase price paid to PERC for each of the years 2003, 2004, and 2005 that result from changing the annual adjustment date (as set forth in Article III(A) of BHE's June 21, 1984 Power Purchase Agreement (the PPA) with PERC) from January 1 to April 1. The amounts deferred under the preceding sentence shall be decreased by $1/6$ to reflect 50% of the effect of these

reduced payments on the Bangor Hydro Distribution for each of the years 2003, 2004, and 2005. Assuming BHE Stranded Costs Rates are adjusted on March 1, 2005 as described in paragraph 6 below, the reductions in the purchase price after March 1, 2005 shall not be deferred as described in this paragraph.

BHE's calculation of the amounts to be deferred shall be based on monthly purchases under the PPA of 13,019 MWH, in accordance with the estimates established in 2001-239. Therefore, the gross amount to be deferred on account of the 2003 adjustment shall be \$98,424, the product of 13,019 MWH for each of January, February and March, 2003 times a purchase price reduction of \$2.52 per MWH, where \$2.52 is the difference between \$134.20 per MWH (the projected purchase price from the last rate case assuming a January 1st adjustment) and \$131.68 per MWH (the actual purchase price without the January 1 adjustment). This amount shall then be decreased by 1/6 to \$82,020 to account for 50% of the effect of the reduced purchase price on the Bangor Hydro Distribution. This same method shall be used to calculate the amounts to be deferred for 2004 and 2005.

4. The amounts deferred pursuant to paragraphs 2 and 3 shall accrue carrying costs computed using BHE's weighted average cost of capital, including the return on common equity approved in BHE's most recent rate case.

5. BHE shall not defer on its books of account, or seek recovery in rates, of any legal fees and expenses incurred by it as a result of: (a) its dispute with PERC as described in its January 8 Petition in the PERC Case, and (b) the PERC Case itself.

6. All parties to the 2004 SC Rate Case agree to defer further processing of that case until such time as it is necessary to resume processing the case in order for new SC rates to be

put into effect by March 1, 2005. Nothing in this paragraph limits the rights of any party to request a change in BHE's SC rates at any time in the future in the event of a change in BHE's financial condition.

IV. PROCEDURAL STIPULATIONS

PROCEDURAL STIPULATION

1. Staff Presentation of Stipulation. The parties to the Stipulation hereby waive any rights that they have under 5 M.R.S.A. §9062(4) and Section 742 of the Commission Rules of Practice and Procedure to the extent necessary to permit the Advisory Staff to discuss this Stipulation and the resolution of this case with the Commissioners at the Commission's scheduled deliberations, without providing to the parties an Examiners Report or the opportunity to file Exceptions.

2. Record. The record on which the parties enter into this Stipulation and on which the Commission may base its determination whether to accept and approve this Stipulation shall consist of (a) this Stipulation; (b) Bangor Hydro's January 8, 2004 filing; (c) all documents and information provided in responses to written or oral data requests in the PERC Case and the 2004 SC Rate Case; and (d) the transcripts of any Technical Conferences and any other material furnished by the Advisory Staff to the Commission, either orally or in writing, to assist the Commission in deciding whether to accept and approve this Stipulation.

3. Non-Precedential Effect. This Stipulation shall not be considered legal precedent, nor shall it preclude a party from making any contention or exercising any rights, including the right of appeal, in any future Commission investigation or proceeding or any other trial or action.

4. Stipulation as Integrated Document. This Stipulation represents the full

agreement between the parties to the Stipulation and rejection of any part of this Stipulation constitutes a rejection of the whole.

5. Incorporation of Attachments. All attachments referred to in this Stipulation are incorporated herein by reference and are intended to be considered as part of this Stipulation as if their terms were fully set forth in the body of this Stipulation.

6. Void if Rejected. If not accepted by the Commission in accordance with the provisions hereof, this Stipulation shall be void and of no further effect and shall not prejudice any position taken by any party before the Commission in this proceeding and shall not be admissible evidence therein or in any other proceeding before the Commission.

Respectfully submitted this 8th day of April, 2004.

Public Advocate

By: _____

Industrial Energy Consumer Group

By: _____

Central Maine Power Company

By: _____

Bangor Hydro-Electric Company

By: William S. Howwood